

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
The HELP II Program
EXECUTIVE SUMMARY

<p>Applicant: Hill Country Community Clinic, Inc. ("HC") 29632 Highway 299 East Round Mountain, California Shasta County</p> <p>Project Site: 29632 Highway 299 East, Round Mountain, California Facility Type: Community Clinic</p>	<p>Amount Requested: \$250,000 Requested Loan Term: 15 years Date Requested: January 31, 2002 Resolution Number: HII-113</p>																												
<p>Use of Loan Proceeds: Loan proceeds will be used to finance a portion of a construction project that will expand the existing facility.</p>																													
<p>Type of Issue: HELP II Loan Prior Authority Borrower: Yes. In 1994, HC borrowed funds under the original HELP program. Payments up-to-date: Yes</p>																													
<p>Financial Overview: Growth in revenues and excellent market share have enabled HC to maintain its profitability over the review period. In addition to a strong income statement, HC's balance sheet reflects the organization's commitment to net asset growth. Although this new debt will impact liquidity, the debt service coverage remains very strong.</p>																													
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Sources of Revenue: (FYE 12-31-00)</th> <th style="text-align: right;"><u>Amount</u></th> <th style="text-align: right;"><u>Percent</u></th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">Net client fees</td> <td style="text-align: right;">\$471,429</td> <td style="text-align: right;">57.0%</td> </tr> <tr> <td style="padding-left: 20px;">Grants</td> <td style="text-align: right;">341,503</td> <td style="text-align: right;">41.2%</td> </tr> <tr> <td style="padding-left: 20px;">Other</td> <td style="text-align: right;"><u>14,401</u></td> <td style="text-align: right;"><u>1.8%</u></td> </tr> <tr> <td style="padding-left: 20px;">Total Support and Revenue</td> <td style="text-align: right;"><u>\$827,333</u></td> <td style="text-align: right;"><u>100%</u></td> </tr> </tbody> </table>		Sources of Revenue: (FYE 12-31-00)	<u>Amount</u>	<u>Percent</u>	Net client fees	\$471,429	57.0%	Grants	341,503	41.2%	Other	<u>14,401</u>	<u>1.8%</u>	Total Support and Revenue	<u>\$827,333</u>	<u>100%</u>													
Sources of Revenue: (FYE 12-31-00)	<u>Amount</u>	<u>Percent</u>																											
Net client fees	\$471,429	57.0%																											
Grants	341,503	41.2%																											
Other	<u>14,401</u>	<u>1.8%</u>																											
Total Support and Revenue	<u>\$827,333</u>	<u>100%</u>																											
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th colspan="2" style="text-align: left;"><u>Estimated Uses of Funds:</u></th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">HELP II Loan</td> <td style="text-align: right;">\$250,000</td> <td style="padding-left: 20px;">Construction/Renovation</td> <td style="text-align: right;">\$640,000</td> </tr> <tr> <td style="padding-left: 20px;">Borrower's Funds</td> <td style="text-align: right;">250,000</td> <td style="padding-left: 20px;">Well/septic/Paving/Grading/Architect</td> <td style="text-align: right;">205,000</td> </tr> <tr> <td style="padding-left: 20px;">Cedillo-Alarcón Grant*</td> <td style="text-align: right;">250,000</td> <td style="padding-left: 20px;">Equipment</td> <td style="text-align: right;">150,000</td> </tr> <tr> <td style="padding-left: 20px;">Infrastructure Grant</td> <td style="text-align: right;">200,000</td> <td style="padding-left: 20px;">Financing Costs</td> <td style="text-align: right;"><u>5,000</u></td> </tr> <tr> <td style="padding-left: 20px;">OSHDP Grant</td> <td style="text-align: right;"><u>50,000</u></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Total Sources</td> <td style="text-align: right;"><u>\$1,000,000</u></td> <td style="padding-left: 40px;">Total Uses</td> <td style="text-align: right;"><u>\$1,000,000</u></td> </tr> </tbody> </table> <p>*Approved August 27, 2001</p>		<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>		HELP II Loan	\$250,000	Construction/Renovation	\$640,000	Borrower's Funds	250,000	Well/septic/Paving/Grading/Architect	205,000	Cedillo-Alarcón Grant*	250,000	Equipment	150,000	Infrastructure Grant	200,000	Financing Costs	<u>5,000</u>	OSHDP Grant	<u>50,000</u>			Total Sources	<u>\$1,000,000</u>	Total Uses	<u>\$1,000,000</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>																											
HELP II Loan	\$250,000	Construction/Renovation	\$640,000																										
Borrower's Funds	250,000	Well/septic/Paving/Grading/Architect	205,000																										
Cedillo-Alarcón Grant*	250,000	Equipment	150,000																										
Infrastructure Grant	200,000	Financing Costs	<u>5,000</u>																										
OSHDP Grant	<u>50,000</u>																												
Total Sources	<u>\$1,000,000</u>	Total Uses	<u>\$1,000,000</u>																										
<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																													
<p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan for Hill Country Community Clinic, Inc. in an amount not to exceed \$250,000 for a term of 10 years given the minimal loan size (versus the requested 15 years), subject to the standard HELP II loan provisions.</p>																													

STAFF SUMMARY AND RECOMMENDATION

Hill Country Community Clinic, Inc.

January 31, 2002

Resolution Number: HII-113

- I. PURPOSE OF FINANCING:** Loan proceeds will be used by HC to finance a portion of a construction project that will expand the existing facility.

***Construction/renovation*\$640,000**

HC seeks to construct seven new exam rooms, an X-ray equipped emergency suite and a patient waiting area to its existing facility. The pre-construction phase is scheduled to commence in April 2002, or as weather permits. HC anticipates the entire project will be complete by the end of February 2003.

This \$250,000 HELP II loan will enable HC to complete the construction portion of the project. Remaining construction and equipment costs will be paid with a combination of internal and available grant funds.

The estimated “as improved” value of the property is \$1.12 million and easily meets the Authority’s HELP II loan to value ratio policy of no greater than 95%, with a loan to value ratio of approximately 22%. A formal appraisal of the existing facility value plus the expansion project will be conducted once the final county permits and construction bids are available and will be provided before this proposed loan closes.

***Pre-construction* 205,000**

Pre-construction costs consist of well, septic, paving and site grading work in addition to an architect fee.

***Equipment*150,000**

Equipment purchases include a full medical X-Ray (room preparation, darkroom, and equipment), equipment for new exam rooms, and waiting room and reception area furniture.

***Financing Costs*..... 5,000**

Authority Closing Fee\$3,125
Title/Escrow/Other 1,875

***Total*\$1,000,000**

Financing structure:

- 10-year loan term.
- 120 equal monthly payments of approximately \$2,415 (yearly payments of approx. \$28,980).
- Total interest payments of approximately \$39,682.
- 1st lien on property located at 29632 Highway 299 East, Round Mountain, California.
- Maximum 95% loan to value ratio.
- Corporate gross revenue pledge.
- Verification of receipt of all permits necessary to begin construction.
- Verification of Guaranteed Maximum Price Construction Contract is in place.

[Intentionally Left Blank]

II. FINANCIAL STATEMENTS AND ANALYSIS:

Hill Country Community Clinic, Inc. Statement of Activity Unrestricted

	For Year Ended	For the Year Ended December 31		
	December 2001 (Unaudited)	2000	1999	1998
Revenue				
Net client fees	\$ 537,263	\$ 471,429	\$ 419,975	\$ 420,453
State Grants	214,391	212,314	201,638	200,026
Private Grants	164,804	77,102	24,083	12,500
Capital Grants	20,442	52,087	94,922	-
Interest	15,623	13,772	12,644	11,363
Other	625	629	1,926	1,053
Total Revenue	<u>953,148</u>	<u>827,333</u>	<u>755,188</u>	<u>645,395</u>
Expenses				
Salaries	472,059	406,952	385,096	372,387
Payroll taxes	37,373	32,386	29,976	29,611
Benefits	50,643	28,586	21,332	19,790
Insurance	24,282	14,451	14,889	14,777
Accounting	4,972	4,977	7,153	8,304
Education, publication, and software	10,840	10,466	4,917	2,458
Laboratory services	37,687	24,402	23,835	19,430
Professional services	76,519	55,118	25,626	20,649
Repair, maintenance and utilities	16,846	12,030	11,948	9,432
Supplies	40,681	40,641	28,304	28,249
Third party pharmacy services	31,301	17,558	8,913	7,364
Telephone	11,979	11,368	8,722	8,006
Travel	8,414	2,977	4,736	3,707
Depreciation	63,425	61,502	32,745	27,454
Other	30,342	24,165	24,473	25,914
Total expenses	<u>917,363</u>	<u>747,579</u>	<u>632,665</u>	<u>597,532</u>
Increase in Unrestricted Net Assets	35,785	79,754	122,523	47,863
Unrestricted net assets, beginning of year	<u>878,728</u>	<u>798,974</u>	<u>676,451</u>	<u>628,588</u>
Unrestricted net assets, end of year	<u>\$ 914,513</u>	<u>\$ 878,728</u>	<u>\$ 798,974</u>	<u>\$ 676,451</u>

Hill Country Community Clinic, Inc.
Balance Sheet

	As of Dec. 31	As of December 31		
	2001	2000	1999	1998
	(Unaudited)			
Assets				
Cash	\$ 79,816	\$ 172,026	\$ 152,663	\$ 281,880
Investments	451,505	200,000	200,000	-
Accounts receivable	147,156	124,769	98,141	37,110
Grants receivable	54,067	83,472	56,402	246,247
Inventory - supplies	20,931	20,931	19,109	20,653
Prepaid expenses	8,839	8,839	11,044	6,543
Fixed assets, net	300,887	361,661	370,584	294,025
Total Assets	\$ 1,063,201	\$ 971,698	\$ 907,943	\$ 886,458
Liabilities and Net Assets				
Liabilities:				
Accounts payable	\$ 12,132	\$ 12,132	\$ 7,406	\$ 7,121
Accrued expenses payable	14,912	14,906	12,004	10,663
Deferred revenue	86,346	14,375	20,942	108,348
Notes payable	34,375	50,875	67,375	83,875
Other	923	682	1,242	-
Total Liabilities	148,688	92,970	108,969	210,007
Unrestricted net assets	914,513	878,728	798,974	676,451
Total Liabilities and Net Assets	\$ 1,063,201	\$ 971,698	\$ 907,943	\$ 886,458
Financial Ratios:				
	Proforma (a)			
	FYE 2000	2000	1999	1998
Debt Service Coverage (x)	3.11	8.56	9.41	4.56
Debt/Unrestricted Net Assets (x)	0.33	0.06	0.08	0.12
Margin (%)		9.64	16.22	7.42
Current Ratio (x)		10.41	9.25	2.82

(a) Recalculates December 2000 audited results to include the impact of this proposed financing.

Financial Discussion:

Growth in revenues and excellent market share have enabled HC to maintain its profitability over the review period.

Over the past three fiscal years, HC's audited financial statements report that total revenue has grown 28%, of which a 61% increase in grant revenue was recorded. Interim results show the increasing revenue trend continuing. HC management anticipates net patient revenues will continue to grow as the number of patient visits continues to increase. Over the review period, HC has remained the only provider of healthcare services within a 900 square mile region. Total patient visits have increased from 6,612 in 1998 to 7,526 in 2001

Since grant revenue represents a significant portion of total revenues, HC management closely monitors the availability of such funds to assess whether or not these revenues will continue over the long term. The majority of the state grant income, for example, is from the Rural Health Service Development Program (RHSDP) and Expanded Access to Primary Care (EAPC). HC management is confident these two grant revenue sources will continue for the foreseeable future since the RHSDP is a state-funded set-aside to promote health projects in rural areas that would otherwise not have services and the EAPC program is a state funded program available to community clinics only. Management notes that both of these programs generally provide steady funding, even during lean years for state funded programs.

Expenses during the review period have generally increased at a slower pace than revenues, with the exception of the interim period. Over the past three audit years, expenses have grown by approximately 25%, in comparison to the 28% growth in revenues. This includes a significant increase in the depreciation expense as HC purchased tele-medicine equipment with grant funding through the Office of Statewide Health Planning and Development. During the interim period, however, the growth in expenses exceeded the growth in revenue from 2000 as salaries increased due to a mid-year 25% increase in dental services and professional services increased as costs for the expansion project were incurred in 2001.

In addition to a strong income statement, HC's balance sheet reflects the organization's commitment to net asset growth. Although this new debt will impact liquidity, the debt service coverage remains very strong.

HC exhibits a strong balance sheet with minimal debt and good liquidity. Cash and investments have continued to increase over the review period, while use of debt has remained very conservative. All of HC's net assets are unrestricted, which provides significant operational flexibility for the organization.

This new debt will impact overall liquidity. However, the proforma debt coverage ratio is strong at 3.11x, while debt to unrestricted net assets, historically less than 0.15, will be a solid 0.33.

III. UTILIZATION STATISTICS:

Hill Country Community Clinic, Inc. Patient Encounters

For Year Ended
December

Fiscal Year Ended December 31

Type of Service	2001	2000	1999	1998
Medi-Cal	2284	2068	2090	2447
County Medical Services Program	368	321	399	541
Medi-Cal CHDP	46	69	68	81
Self-eligible CHDP	28	36	43	55
State Only Family Planning	28	36	38	0
Medicare-Medi-Cal	354	435	303	330
Medicare	641	544	450	408
Healthy Family	112	115	93	0
Insurance	1178	1204	1047	1064
Staff With Insurance	165	165	92	89
Staff Without Insurance	129	79	75	65
Self-pay	228	257	286	294
Sliding scale discount	1965	1492	1302	1238
Totals	7526	6821	6286	6612

IV. ORGANIZATION:

Background: HC was organized in 1982 and began offering primary care medical services on a part-time basis to all residents at its sole Highway 299 East site in March 1985. By 1989, medical services were available full-time and a counseling program had been added. In 1991, the organization added a full-time dental clinic.

HC's facilities, as well as 100 square miles of its service area, were destroyed by fire in August 1992. The patient medical and dental charts were saved and during the rebuilding of the facility the clinic staff assisted patients with case management and referral services. In March 1993, the clinic was re-opened for business. Since then, the clinic has added acupuncture, podiatry, and dental hygiene programs and has expanded its mental health program with a focus on children and families.

Licenses: HC is licensed as a community clinic with the Department of Health Services.

Competition: HC is the sole provider of health care in an approximately 900 square mile region, consisting of a population of 4,700, north and south of State Highway 299 East in the Cascade Mountains of north-central Shasta County, California. This service area stretches eastward from the foothills near Redding to the crest of the Cascade range west of Burney and from the Siskiyou County Line to the highlands separating north- from south-central Shasta County on the south.

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 12/31/01 (Unaudited)	Estimated Amount Outstanding After Proposed Financing
Existing:			
CHFFA HELP Loan, 1993	\$ 165,000	\$ 34,375	\$34,375
Proposed:			
CHFFA HELP II Loan, 2002	250,000	N/A	250,000
TOTAL DEBT		<u>\$ 34,375</u>	<u>\$284,375</u>

VI. SECTION 15438.5 OF THE ACT:

With this proposed HELP II Loan, HC will save approximately \$74,300 in comparison to an 8% bank loan. HC, which serves clients regardless of their ability to pay, will use these savings to lower sliding scale co-payments.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Hill Country Community Clinic, Inc. in an amount not to exceed \$250,000 for a term of 10 years given the minimal loan size (versus the requested 15 years), subject to the standard HELP II loan provisions.